ISSN 0542—5492

Fourth Session — Thirty-First Legislature

of the

Legislative Assembly of Manitoba

STANDING COMMITTEE

ON

ECONOMIC DEVELOPMENT

Published under the authority of The Honourable Harry E. Graham Speaker

THURSDAY, 22 MAY, 1980, 10:00 a.m.

Printed by W.T.Matwichyna, Queens Printer, Province of Manitoba

MANITOBA LEGISLATIVE ASSEMBLY
Thirty - First Legislature

Members, Constituencies and Political Affiliation

Name	Constituency	Party
ADAM, A. R. (Pete)	Ste. Rose	NDP
ANDERSON, Bob	Springfield	PC
BANMAN, Hon. Robert (Bob)	La Verendrye	PC
BARROW, Tom	Flin Flon	NDP
BLAKE, David	Minnedosa	PC
BOSTROM, Harvey	Rupertsland	NDP
BOYCE, J. R. (Bud)	Winnipeg Centre	NDP
BROWN, Arnold	Rhineland	PC
CHERNIACK, Q.C., Saul	St. Johns	NDP
CORRIN, Brian	Wellington	NDP
COSENS, Hon. Keith A.	Gimli	PC
COWAN, Jay	Churchill	NDP
CRAIK, Hon. Donald W.	Riel	PC
DESJARDINS, Laurent L.	St. Boniface	NDP
DOERN, Russell	Elmwood	NDP
DOMINO, Len	St. Matthews	PC
DOWNEY, Hon. Jim	Arthur	PC
DRIEDGER, Albert	Emerson	PC
EINARSON, Henry J.	Rock Lake	PC
ENNS, Hon. Harry J.	Lakeside	PC
EVANS, Leonard S.	Brandon East	NDP
FERGUSON, James R.	Gladstone	PC
FILMON, Gary	River Heights	PC
FOX, Peter	Kildonan	NDP
GALBRAITH, Jim	Dauphin	PC
GOURLAY, Hon. Doug	Swan River	PC
GRAHAM, Hon. Harry E.	Birtle-Russell	PC
GREEN, Q.C., Sidney	Inkster	Ind
HANUSCHAK, Ben	Burrows	NDP
HYDE, Lloyd G.	Portage la Prairie	PC
JENKINS, William	Logan	NDP
JOHNSTON, Hon. J. Frank	Sturgeon Creek	PC
JORGENSON, Hon. Warner H.	Morris	PC
KOVNATS, Abe	Radisson	PC
LYON, Hon. Sterling R.	Charleswood	PC
MacMASTER, Hon. Ken	Thompson	PC
MALINOWSKI, Donald	Point Douglas	NDP
McBRYDE, Ronald	The Pas	NDP
McGILL, Hon. Edward	Brandon West	PC
McGREGOR, Morris	Virden	PC
McKENZIE, J. Wally	Roblin	PC
MERCIER, Q.C., Hon. Gerald W. J.	Osborne	PC
MILLER, Saul A.	Seven Oaks	NDP
MINAKER, Hon. George	St. James	PC
ORCHARD, Hon. Donald	Pembina	PC
PARASIUK, Wilson	Transcona	NDP
PAWLEY, Q.C., Howard	Selkirk	NDP
PRICE, Hon. Norma	Assiniboia	PC
RANSOM, Hon. Brian	Souris-Killarney	PC
SCHROEDER, Vic	Rossmere	NDP
SHERMAN, Hon. L. R. (Bud)	Fort Garry	PC
STEEN, Warren	Crescentwood	PC
URUSKI, Billie	St. George	NDP
USKIW, Samuel	Lac du Bonnet	NDP
WALDING, D. James	St. Vital	NDP
WESTBURY, June	Fort Rouge	Lib
WILSON, Robert G.	Wolseley	PC

LEGISLATIVE ASSEMBLY OF MANITOBA
THE STANDING COMMITTEE ON ECONOMIC DEVELOPMENT
Thursday, 22 May, 1980

Time — 10:00 a.m.

CHAIRMAN — Mr. Morris McGregor (Virden).

MR. CLERK, James Munch: Good Morning, gentlemen. Could I have your attention, please. Up to now the Member for Wolseley has been the Chairman of this committee and he has been replaced. So your first order of business will be to select a new Chairman. What is your pleasure, gentlemen?

Mr. Brown.

MR. ARNOLD BROWN (Rhineland): I would make a motion that we have the Member for Virden as Chairman.

MR. CLERK: Moved by the Member for Rhineland, nominating the Member for Virden. Any other nominations? Hearing none, I call on Mr. McGregor to take the Chair, please.

MR. CHAIRMAN: I call the committee to order and I will call the Minister responsible for McKenzie Seeds, the Minister of Fitness and Sport for comments first.

A. E. McKENZIE COMPANY LTD.

HON. ROBERT (Bob) BANMAN (La Verendrye): Thank you, Mr. Chairman. I'd like to this morning introduce the new Chairman of the McKenzie-Steele Briggs Seeds Company, A.E. McKenzie Company and its subsidiary company, Mr. Ed Mazer. He, I believe, will be having a few opening remarks and because of his short term in office, I would ask Mr. Bill Moore, who is the general manager of the company to also come forward and could possibly at a point in time, if there are some questions dealing with the statement and some other technical questions, could possibly answer that because of the short time Mr. Mazer has been Chairman of the Board.

We also have with us this morning the Comptroller of A.E. McKenzie, Mr. Charlie McEachern. So I'd ask Mr. Mazer now to make an opening statement and I'd ask Mr. Moore maybe to join us at the table over here.

MR. MAZER: Mr. Chairman, A.E. McKenzie Co. Ltd., the largest distributor of garden seed in Canada ended its 1979 fiscal year reporting, after debt-servicing charges, a loss from operations of 744,853.00. To facilitate consideration of refinancing, partnership or other arrangements and to clarify as clearly as possible, the most current status, the company has changed certain policies of accounting for goodwill, inventories and prepaid expenses and has expensed them in the 1979 fiscal year. These changes which are of a non-recurring nature increased the net loss to 2,407,173.00.

The cost of servicing the company's high debt remained a heavy burden in 1979. Interest charges and guarantee fees paid to the Bank of Montreal and to the Government of Manitoba amounted to over 1,077,000 — an increase of over 275,000 over the previous year. This amounted to 14.4 percent of gross revenues.

The company services over 19,000 accounts from coast-to-coast in Canada and maintains a large portion of the Canadian market for packet seeds, onion sets, onion multipliers, packaged lawn grass mixtures and flower bulbs. There are approximately 15 other major competitors in the Canadian market.

During the year the company embarked on actions to build the Mail Order Division and to introduce new and related products to its present customers. These efforts are proving extremely beneficial to the present year's operations and should strengthen the company's position in the marketplace in the years ahead.

The company has, at peak season, 260 employees. The large majority of these employees is located in Brandon where the company operates a plant and warehouse of over 130,000 square feet in the downtown area. The payroll of the Brandon plant amounts to 1,850,000 per annum in salaries and benefits.

With almost seven months of the present operating year and 75 percent of the present selling season now over, the company is confident that the 1980 fiscal year will reflect continuing higher sales, especially in the Mail Order Division, and it is expected that the company, in spite of debt-servicing charges of an estimated 1,400,000, the company will end the 1980 fiscal year having returned to a profitable position.

That is my opening remarks, Mr. Chairman. If I might just add that, as the Honourable Minister indicated, my appointment as Chairman of McKenzie Seeds took effect only some three weeks ago. As a result of that I'm not fully familiar with all operations of the company, nor am I fully familiar with the operations of 1979, which are the subject of the financial report in front of the committee today. In addition, the new Board of Directors has been appointed, most of whom are new members to the board, not having carried over from previous terms, are also new to the company and its operations.

To this point we have had one lengthy familiarization meeting with management of the company and have immersed ourselves in material that has been made available to us regarding the past and current financial and marketing status of the company. We will be holding our regular meetings forthwith, the first scheduled one being next week and at that time the board hopes to deal directly with business matters confronting the company as it currently stands. Thank you.

MR. CHAIRMAN: The Member for Brandon East.

MR. LEONARD S. EVANS: Thank you, Mr. Chairman. First of all I'd like to congratulate Mr. Mazer, the newly appointed Chairman. First of all, I'd like to congratulate Mr. Mazer, the newly appointed Chairman. I know he has done very well in the business community in the city of Brandon, and I trust he will use his talents and abilities to the fullest in his new capacity as Chairman of Canada's largest national package seed company. I must say that he has some big shoes to follow, I believe Mr. Bob Clement, whom many of us are familiar with, has, over the years, provided I think a valuable public service. He has conducted himself with a great deal of conscientiousness and vigour over the years, but I'm sure that our new Chairman will put his shoulder to the proverbial wheel and do his very best.

So I do wish him well and his board. I look forward to some positive things happening.

With regard to the statement, the difficulty anyone has at this point, having just obtained the report, we haven't had an opportunity therefore to study it, analyze it and understand what some of these numbers mean, and this of course is, I don't know whether it's traditional that we don't get the copy of the report until the actual committee meets, but so be it. Therefore, I have a number of questions, Mr. Chairman, that relate to the statement, and I have other questions as well related to the board's philosophy. But more importantly, perhaps to begin with, to understand what this new statement means, because this statement of a net loss of 2,400,000, I think has got to be an all time high in terms of losses of McKenzie Seeds, because looking back through the years there have been losses by the company dating back, I believe, to around the time that the former owner, Dr. A. E. McKenzie died. I go back here to 1964, the loss as shown on the statement in that year was 10,000; in 1965, it was 21,000; in 1966 it jumped up to 196,000 loss; 1967 it was 184,000 loss; 1968, the loss was 294,000; 1969, the loss was 157,000.00. Then it was turned around, in 1970 the company showed a small profit of 27,000; in 1971 it showed a profit of 151,000; in 1972 a loss, and I'm just going to round this off, Mr. Chairman, was 127,000; in 1973, a small profit of 7,800; and in 1974-75, we have large losses, 400,000, and in 1975, 600,000.00.

Now, in 1976, the report, as I understand, showed a profit of 21,000; and then in 1977 I believe it's 250 but that was a preliminary figure and perhaps subject to correct.

At any rate, the point of course is, in the last few years the big factor has been the matter of a very very high interest burden that the company has had to sustain because of an unduly heavy debt structure, an abnormal debt structure. Therefore, while I can understand some of these previous losses, because they are losses after interest charges have been paid, and if those interest charges hadn't to be paid in this abnormal fashion, we would have seen profits for many a year. But now we have a huge deficit. The statement says a non-recurring nature, a loss of 2,400,000.00. I'd like to know, I know the statement makes reference to the fact that it's to facilitate consideration of refinancing, partnership or other arrangements, but nevertheless, I'd like to know just what is involved in that write-off, or however you might describe it.

We have a figure here, I wonder, perhaps we could go through the report and either the Chairman or the President or the Minister could itemize in the report where that write-off is itemized, and exactly what is involved in that, hopefully, one time loss.

MR. MAZER: Mr. Chairman, the President and Manager of the company, Mr. Bill Moore, who is with me today, has well documented the various entries that you see in the statement before you. If the Chair might refer the questions of the honourable member to Mr. Moore I think he could answer them fully.

MR. CHAIRMAN: I need some guidance. What is the will of this committee, to go page-by-page on the report?

The Honourable Minister.

MR. BANMAN: I think, Mr. Chairman, what's been customary because one question might arise later on, a page earlier. I think it's usually been a policy that once all the questions have been asked we just accept the report and if that meets with committee's approval we'd go that way.

Mr. Chairman, if I could suggest that Mr. Moore answer some of the technical questions, and maybe we could cover some of the concerns and the questions that the Member for Brandon East has.

MR. CHAIRMAN: The Member for Brandon East maybe has some individual questions he would like to put.

MR. BANMAN: He did already.

MR. CHAIRMAN: All right. Mr. Moore.

MR. WILLIAM MOORE: Mr. Chairman, the first major item is provision for Inventory Obsolescence of 390,380, and that's a provision. It's not a write-off at this point in time, but it's a provision for possible write-offs of inventory. It's very hard to argue against accountants to say that in an inventory of 5 million, that somewhere there's not going to be aid for provision of obsolescence, and the board decided it should make a provision at this time of 390,000.00. The next major item is Changes in Accounting Policies, as outlined in Note 2. And this is where packets, as you know, are sold on consignment and as such have to be prepriced, and in order to allow increase in packet prices to take place, the present inventory has to be destroyed. The company had a policy for some time that would match expenses with revenues, that is to say that it would take the cost of destroying those packets and would amortize them over the period of benefit in the years ahead. That policy has been changed now, and in future the cost of destroying any packets, etc., will be written off in the actual year in which the destruction happens, rather than the year of future benefit from price increases. That amounted to 542,000.00.

The cost of sorting returned packets — again, about 45 percent of the product that is shipped as far as packet seeds are concerned are returned to the plant and are recycled, subject to the quality of the packet and the quality of the seed in the packet being up to Canadian No. 1 standards. Previously those costs of sorting had been a prepaid item where they would be built up in one year and would be amortized into the next year. That has been changed and as a result 165,000 has been written off in this year, in addition to the normal charges that were put through this year from the previous period.

There are 35,000 of other additional costs that had been previously treated as prepaid expenses. These were items such as inventory of maintenance parts for equipment, I think was the biggest single item on there; or stationary, which previously we had taken the cost and prepaid it into the next year. That is now under the new accounting policy, it has been written off in the year in which the product was actually purchased. Of these particular items there were 309,000 had already been amortized into the statement, in addition to the 742,000 mentioned there.

The other major change is the 529,592 — 500,000 of that is the writing off of the goodwill which was on the books from the time of the purchase of the Steele Briggs company in Toronto and when that was put on the books back in 1971 or 1972, it was an acceptable accounting principle to do it that way. The Institute of Chartered Accountants have since changed their policies in that matter and have, over a period of time, recommended that item should be written out of the statement and it has been done in this particular year.

The 29,592 is an amount of legal fees, etc. that were incurred and put on as part of the Steele Briggs asset at the time of the purchase of Steele Briggs Seeds.

Now the only other item of significant write-off that's not included in the notes, at least on Page 4, but are included in the notes in the back, is the write-off of Sabetha Seed Company's debt to the company of about 56,000 American. That matter is now in the courts and indeed the former chairman, Mr. Clements and myself will be attending the American courts to seek to have the company reimbursed by that amount.

MR. CHAIRMAN: The Member for Brandon East.

MR. EVANS: Thank you, Mr. Chairman. I swallowed the — Mr. Moore, on inventory obsolescence of 390,000 and then he itemized the 742,000 so that brings me to about 1.1 or 1.2 million, the write-off is 2.4. So what was the balance, you lost me on that a couple of times. Just give . . .

MR. CHAIRMAN: Mr. Moore.

MR. MOORE: There was 529 extraordinary items as per Note 11 which was the write-off of goodwill and the 29,000 for excess value of the shares, and then there was the loss from operations would be added to that.

MR. CHAIRMAN: The Minister.

MR. BANMAN: On Page 4, I think he explains it fairly well. If you go down to the line just below interest provisions, it shows the net loss for 1979, the provisions for the obsolescence inventory, which brings you down to a 1.135 million loss before the extraordinary items. The extraordinary items that Mr. Moore made mention to were changes in accounting policy, that was the sorting and other things, which amounted to 742,000, which is Note No. 2. The other extraordinary items, Note No. 11, is the half-million dollars of goodwill and also the 29,000 which I believe were a legal costs which were put into the books as an asset at that time. So that brings you to the total amount, if you take the losses for the year-end as well as the extraordinary write-offs, brings you to the total amount at the bottom of 2.4 million.

MR. EVANS: Mr. Chairman, I'm wondering who recommended some of these changes. I believe the company still retains, well it does retain Meyers Norris Penny & Co., Chartered Accountants, who have been long-time auditors, long before I got into politics, of this company, as I understand. And I do know that Thorne Riddell were hired by the government to look at the financial structure of the company and perhaps the business organization of the company. But I'm wondering who exactly made the recommendations of some of these changes and secondly, would you not agree that some of the changes would be a matter of opinion, of value judgement. For example, particularly when you get into the area of goodwill, if 529,592 is written off as goodwill, does that leave the company with no goodwill whatsoever? I think everyone would have to agree that goodwill is a very intangible item and it's a psychological item. How do you measure goodwill? I mean, you almost have to go out and take a survey of the customers or whoever else is in the business community that may be interested in your business. It's pretty difficult to assess the value of goodwill.

MR. MOORE: Again, Mr. Chairman, I'd have to say as far as the goodwill is concerned, it was really a change that came about over the past few years in accounting practices as recommended by the Institute of Chartered Accountants, acceptable accounting practices. What they really say is that with goodwill, when goodwill goes on your books, you should now provide a period of time over which you are going to amortize it, or else you should write it off all at once. Meyers Norris Penny on that particular item had recommended on a couple of occasions that perhaps goodwill should be written off. The board of directors whose statement it is — it's not really Meyers Norris Penny's statement — had not accepted that recommendation from them; however this year they did accept it.

MR. CHAIRMAN: The Member for Rhineland, Mr. Brown, unless you are still wanting . . . well all right.

MR. EVANS: Well, I have several pages of questions but if others want to interject on the same topic, maybe that would be the most fruitful way . . .

MR. CHAIRMAN: Well there are two wanting the Chair also, to the member. I'm pretty flexible if you want to ask some more.

MR. EVANS: Well I would like to pursue this point and then perhaps if Mr. Brown has a comment.

MR. CHAIRMAN: Okay. The Member for Brandon East.

MR. EVANS: I just suggested this to make it orderly and I have no objection if you rule that someone else wants to ask questions, that's fine; then I have some others.

Well, on this then, the 742,000, that breakdown is shown on Page 6. Was this a change in accounting procedure? Is this based on a recommendation of Thorne Riddell? Or is this a recommendation of the auditor and of course accepted by the board, it has to be accepted by the board, I understand that.

MR. MOORE: Mr. Chairman, it's a change that came about in accounting policies as stated in the note to allow, to facilitate consideration of refinancing etc. following discussions with Thorne Riddell and discussions with the shareholders' representative, the Honourable Bob Banman.

MR. EVANS: Well, are you suggesting that following discussions, it is a recommendation of Thorne Riddell, did it arise out of that study that was conducted last fall?

MR. MOORE: I think, Mr. Chairman, perhaps the Minister would be able to answer the Thorne Riddell Report.

MR. CHAIRMAN: The Honourable Minister.

MR. BANMAN: Mr. Chairman, there were a number of changes that were asked for or recommended by Thorne Riddell. Some of these, and I haven't got the exact breakdown, which ones specifically, but most of the amount of money in regard to that 742,000 was in one shape or form a recommendation of the Thorne Riddell Report.

MR. CHAIRMAN: The Member for Brandon East.

MR. EVANS: So it's originated from Thorne Riddell. I am wondering, I have some press reports here and it stated, with reference to the bids that were submitted last year, — this is the Brandon Sun of Friday, November 30th, a front-page story. It stated and I'm quoting the paper verbatim here: Mr. Banman said the five bids on the firm were rejected because they undervalued McKenzie's assets. We were not convinced the bids reflected the true value of the assets in the company potential. Obviously, we disagree with the offers the Minister stated. On November 19th there's a statement, again on the front page of the Brandon Sun, referring to comments made by Mr. Bergman in a telephone interview commenting on the bids. Mr. Bergman said in a telephone interview today that an independent study of the company's current and fixed assets was conducted because the government was concerned the five bids of the firms devalued its assets and inventory and accounts receivable. He said the report by the Winnipeg accounting firm of Thorne Riddell and Company confirmed that the bids offered less than the value we put on it. That's the end of my quote from the paper. I'm just wondering are we now, in effect, agreeing with the bidders that submitted tenders last summer, because in these stories I understand the basic reason for rejection was that the offers weren't high enough. Now, it seems that we are moving in the direction of devaluing the assets of the company. tAre we responding to the bids that were made last summer, in effect, by doing this?

MR. BANMAN: No, Mr. Chairman. I think we are looking at what more accurately reflects the positiion of the company. As the member knows, our liabilities run in the neighbourhood of about 10.5 million. The equity position is much less than that. The member has suggested in the past that there should be 5 million to 6 million turned over into equity which would indicate that about half of the money that we have right now is money that is non-recoverable. In other words, it is carrying an equity debt ratio which is totally out of whack with what would happen in normal business practices. The company realizes that and the government realizes that and I don't think you have to be too smart to see that. The thing that has happened — Mr. Moore mentioned one of the items dealing with goodwill — if you've got a company with that kind of an equity debt ratio where you owe 5 million more than you've got assets, there can't be any goodwill. I can't see anybody paying goodwill for a company that has that kind of an equity debt ratio.

The other thing that has to be understood is that with regard to one of the major problems of the company in dealing with marketing is the fact that the prices are printed on the packets and when those packets are returned the packets have to be destroyed. The seed content in that packet is a very very small part of the total cost of the package and, as a result, as these come back you've got seed packets which are maybe priced three years ago. What we saw happen in this particular year is that our margins, our gross margins, started dropping because we could not increase the price of the product that we were selling and, as a result, suffered some deterioration in our gross margins. This is unique to this business. Usually if your expenses go up, if your transportation goes up, you increase the price of your product. With the price printed right on the packet you've got a real problem. So, some of this seed that was coming back and being destroyed was then amortized over a number of years. In talking to accountants and different people, the change in the accounting policy will be that packages that are destroyed that year will now be written off to accurately reflect what the position of the company is.

MR. EVANS: On the matter of goodwill, specifically, does this mean there is no goodwill whatsoever in the assets? Are you suggesting all the goodwill — I know they are presently related to the recommendations of professional accounting association — this is some change in practices and so on, but it would seem to me that the name McKenzie Steele Briggs is worth something. It's the only package, national package seed company in Canada. It is the only national package seed company in Canada, so it would seem to me it's worth something. Now, maybe there is some goodwill left in there. Again, I haven't had an opportunity to study the document because I have only had it a few minutes ago as some other members have, but . . .

MR. CHAIRMAN: The Honourable Minister.

MR. BANMAN: Just to put the thing in clear perspective, the inventory there is running about 5 million, 5 million-5.5 million. If for some reason something should happen to the company that you couldn't market for one year that inventory, because seed represents such a small percentage of this total operation — I know it's McKenzie Steele Briggs Seeds, but it's really a marketing and distribution company — if you would not market for one year, that 5 million inventory, which is really packet seeds with the prices printed on there, becomes obsolete very quickly. So what we are saying is that the value of the company has, to a large part, the problems of one of marketing and one of distribution. The goodwill, if there is any with regard to the company, would be tied up with the name on the packets. In other words, you can't put a different name or anything on it and it would be reflected in the stock. But the company at present is looking at a debt load which far outstrips any of the assets that are involved in the operation of the company. So looking at past performance, looking at the debt load, the goodwill would be wrapped up in the faith that someone would show in the purchase of the stock and of the physical assets of the company.

MR. EVANS: Mr. Chairman, I recall back in 1969-70 — I guess '70 actually — when I first became Minister responsible for McKenzie's, the Ferry Morse Incorporated of the United States which was the only company that Mr. Swanson, who had been hired back in 1967-68 by Mr. Gurney Evans, seemed to be able to only come up with this company that made, what I consider to be a pitifully low offer of 200,000.00. My understanding at that time, really, what they were interested in was the name of the company and the accounts, they didn't give a damn about the building, they weren't going to stay anywhere in Manitoba; they didn't care about the physical and they didn't really care about the inventory because they had their big seed operation in the United States. In fact, they even sell seed right now to McKenzie Seeds but it seemed to me that they were in some senses buying goodwill. They were buying thousands and thousands of accounts, you know, in the name of the company. It seemed to me that's what they were buying; they didn't give a darn about the plant per se or what was in it. At any rate my specific question then, is there any goodwill in the accounts now?

MR. MOORE: No, Mr. Chairman, there is not. There's no goodwill reflected in the statement at all.

MR. EVANS: Well, I don't know whether the president or the chairman want to comment on this. Are you not concerned that there's no goodwill shown in the assets whatsover?

MR. MAZER: Yes, I think the position that the board will probably take on this matter and that I personally take at this point in time, is that goodwill is normally an accounting entry with most companies and that as long as your accounting procedures are consistent, year to year, the accounting entries that might be of an extraordinary nature at any given point in time, will not necessarily reflect the true value of the company or the asset that you are dealing with.

In the case of McKenzie Seeds, its value as a going concern would be determined by any number of methods by a prospective buyer as an example, which could include looking at actual fixed and other asset values, inventories, accounts receivable and so on and then I think any potential buyer would probably put an intangible value, what I might call it, on any going concern in accordance with their perceived profitability and the, as you mentioned, things such as name and location and so on. But that is an entry that has not been recommended by this current board but we're perfectly satisfied to live with.

MR. CHAIRMAN: Mr. Evans, I wonder if you would allow the Chair, there are four other members I believe who are wanting to get in, some of them on this particular area. I would allow a couple more questions and then turn it to one of the other members or . . . The Member for Brandon East.

MR. EVANS: Mr. Chairman, as the spokesman for the opposition, I have a whole series of questions, on a whole range of topics related to the company, all I believe in the public interest but I am quite happy, if the members of the government side want to ask questions by all means, I would like to hear them and like to have that discussion, but I just want to advise you that I have a number of questions and I hope that I'll have an opportunity to put those questions subsequently.

MR. CHAIRMAN: Well, all right, the Chair would then allow the members that are on the list and then we'll return to the Member for Brandon East,

The Member for Rhineland.

MR. ARNOLD BROWN: Thank you, Mr. Chairman. I just have a couple of questions. I'd just like to make a brief comment on goodwill though. Accounting practices change from time to time and goodwill in the last couple of years and so on is something that is not being recognized by most accounting firms because that is an item which is negotiable at the time of selling. It's not anything that you can really put a price on, it's negotiable, so most of your accounting firms are not going to recognize that and put this on your balance sheet.

I have a few questions. On Page 2, I notice that your inventory as of October 31st is 4,950,000, almost 5 million. Would this be your average inventory during the year or would this be a high?

MR. MOORE: Mr. Chairman, the inventory at October 31st gets pretty close to being a high. There's some labour that's added to it over the next two months before we start shipping again, but that's close to a high.

MR. BROWN: Okay. That seems to be rather high with total sales of 7,492,000 when you are in the position that you're in where you're paying interest on that amount of money; I'm glad to hear that it's high.

Your accounts receivable on Page 6 is 906,732; again, October 31st you would think that your accounts receivable would be at an all-time low at that particular time. What is your policy, do you give 30 day, what is the policy of the company?

MR. MOORE: Mr. Chairman, the policy in accounts receivable is that — seeds are sold in three ways; one, outright sale in which there's 30 days or 2 percent interest charges after 30 days; secondly, guaranteed sale, and under guaranteed sale people pay for the product and then are refunded against returns that are made at the end of season; and the third method is consignment, where packets — and that's the main method of selling seeds — where packets are shipped out and the settlement is not made until the end of season, until the returns have been picked up.

As far as accounts receivable are concerned at the end of October, there is a substantial amount of grass seed sold in the fall of the year and there are about 3 or 4 hundred thousand dollars worth of fall bulbs that are sold at the end of the year that would be reflected in the accounts receivable at that point in time. They would really just be 30 day accounts then.

MR. BROWN: Do you have a differential in price for somebody who pays for his seed within 30 days, in other words the cash customer as compared to the person who has the seed over there on consignment?

MR. MOORE: Yes, Mr. Chairman, there is, there's a difference, and depending on the volume of business that they do with the company and the nature under which the better consignment are guaranteed, there's different terms for each of the customers.

MR. BROWN: Another area is that I see on Page 4, Selling, 2,305,000, could you tell me what's involved in selling. That seems to be rather high, with a total sales of 7,492,000.00. Can you explain what's involved in the selling price, or the selling item over there? Are commissions involved in this; what's involved?

MR.MOORE: Mr. Chairman, three of the biggest items are No. 1 freight, which amounts to somewhere in the region of half a million dollars, salaries and benefits, which include salaries and benefits to employees who work within the mail order division or the direct marketing department of the company and the sales people out in the field. And the cost of producing the catalogues which are a total of about — last year there were 400,000 copies; 250,000 in the spring and 150,000 in the fall. The cost of that catalogue is in there and that's another significant figure. The next most significant figure would be the amortization of packet seed displays which are mainly metal and these displays are written off over a five year period which is basically the life of the displays themselves. The cost of warehousing across Canada. It should be recognized that the company really operates in a very seasonal nature and in order to supply 19,000 retail outlets in the time of the season that they want their seeds, we really have to distribute to smaller warehouses across the country early in the season and then from there to the particular customer. The cost of that warehousing is in there. The cost of trucks and automobiles for sales people to service the accounts and to pick them up at the end of the season is also included in there. Those are the major items that would be included in that.

MR. BROWN: Mr. Chairman, I wonder if we could have a bit of a breakdown, I think you must have this, first of all, cost of catalogue; how many sales force do you have out in the field, could you give us a breakdown of that?

MR. MOORE: I would like, Mr. Chairman, to make the breakdown as general as possible, because there are certain points of that information that would be of advantage to competitors in certain regions; so if the member can accept that, I certainly could make available to anyone the exact details, as we do every month for our Board and to the Minister. But we start off with two permanent sales people in British Columbia, three permanent sales people in Alberta, one of them acts as the sales manager for western Canada. We have the Ontario sales manager who looks after Ontario, a sales manager in Quebec, and one in the Maritimes. In Quebec, we have two full-time clerks and two area supervisors; in Ontario we have one clerk and four area supervisors; in Manitoba, we have one sales supervisor; Saskatchewan, we have one sales supervisor; and I mentioned Alberta and B.C.

In addition to that, at certain times of the year in B.C. we would hire up to 7 different temporary people; in Alberta up to 9 different temporary people; Saskatchewan, 4; Manitoba, 6; Ontario 10; Quebec, up to 7; and the Maritimes, 3 people. In addition to that, we have a national sales manager, we have a sales administrator, and two people who call mainly on national accounts, one of whom just works with the company on a part-time basis as he is past retirement age, and one who is his understudy and is much younger.

We then have a manager of direct marketing which looks after the Mail Order Division and other direct marketing activities such as those that the company do through the Reader's Digest, McLean-Hunter subsidiary of quality service programs, which is a school program, and we have a vice-president of marketing who looks after the marketing strategies, the design of displays, and that type of thing. That's basically the main sales organization.

In addition to that, the selling expenses would reflect the salaries of all the people involved in the fulfillment of the mail order operation. For example, this particular season that is just over, the mail order has grown from say, 500,000 in sales to over 1 million in sales in the spring program, and the people who have to fulfil those roughly 35,000 initial orders and 20,000 orders of perishables that go later in the season, all of their salaries and the cost of shipping that product in the mail order is all included in the sales analysis that's there.

MR. BROWN: Could you give me an approximate cost of the catalogue?

MR. MOORE: Mr. Chairman, delivered to the consumer, the catalogue itself costs about 50 cents.

MR. BROWN: Okay. Thank you.

MR. CHAIRMAN: Mr. McGill, Minister without Portfolio, Brandon West.

HON. EDWARD McGILL: Mr. Chairman, I was interested in the opening statement by the Chairman, Mr. Mazer, and I would refer him to the final paragraph of that statement: With almost seven months of the present operating year and 75 percent of the present selling season now over, the company is confident that the 1980 fiscal year will reflect continuing higher sales.

Mr. Chairman, I appreciate that Mr. Mazer has only had a week or two in his present responsibilities, so he may wish to refer the question to Mr. Moore, but the current weather conditions notwithstanding, does the company feel, or have they figures to back up this projection of the operations for the 1980 fiscal year? You point out that you've had seven months of the year now, you must be into your major selling period. I would expect that it's rather difficult for you to be able to get a reading on how many packages of seeds are being picked up from your display folders all across the country, but I would really like to know whether or not there is firm evidence that sales are going to exceed last year's sales, for instance.

MR. MAZER: Mr. Chairman, in a general response to that question, first I might say that the new Board of McKenzie's is very pleased to notice that the current management of McKenzie's follows a very detailed and full reporting procedure, and a responsive type of accounting, month to month and week to week. Because 75 percent, approximately, of this year's selling season is already over, we are blessed with having figures already available which do indicate that the budgeted figures for the 1979-80 fiscal year are being met very closely, and that in fact a profitable year is in store.

Mr. Moore has prepared all the figures, so I might refer the details of your question to him, if he would like to highlight any particular items.

MR. MOORE: Mr. Chairman, we expect sales this year will exceed 9 million, we expect them to be approximately 9.2 million, which is about 1.8 million higher than they were a year ago. The major area of increase will be the Mail Order Division, which already has experienced 600,000 sales higher than it had this time a year ago, and we expect the fall catalogue to pull sales in excess of 600,000, which would give us a total in that area, of a million dollars of sales in excess to what that particular area was a year ago.

The remainder of the sales would come from, as you mentioned, the weather is much better. I'm sure, Mr. Chairman, members of your committee will remember last year when we were at the committee hearings, the helicopters were out on the lawn to take the Premier down to see the flood stricken areas in Manitoba, and of course weather conditions were very bad in other areas. In Manitoba alone last year, sales dropped off by about 100,000 in the areas that were stricken by flood, not to mention some of the others. So we have every confidence that we will meet the 9.2 million sales.

Someone handed me a cartoon yesterday that said, it's not our projections ever that are wrong, it's reality sometimes gets mixed up a little bit.

MR. McGILL: Mr. Chairman, I'm rather pleased to hear the confident reports that are coming now from McKenzie Steele Briggs. I wonder, in the projection of sales, are you able to isolate the amount of increase relating to seeds? You have noted that the additional lines that you are offering through your mail order are showing some good increases. Would you say that percentage-wise, your sales of garden seeds are also showing an increase?

MR. MOORE: Yes, Mr. Chairman, in the mail order area we do keep a tally on virtually a week-to-week basis, and it's running — prior to this year, seed sales and non-seed items were about 50 percent each and that seems to be the same ratio in the spring catalogue once again.

MR. McGILL: Mr. Chairman, there was a comment by Mr. Moore during his explanations about a legal case between McKenzie Steele Briggs and Sabetha Seeds of Kansas, where you have a claim against Sabetha of 56,667 and they have filed a counterclaim of 830,000.00. I think you said that Mr. Clement, the former chairman was either currently or was about to appear in relation to this hearing. Is that correct?

MR. MOORE: Mr. Chairman, Mr. Clement and myself will be appearing in the first week of June for some sort of a preliminary hearing in Topeka, Kansas, on our claim against Mr. Wiltz. We have not been asked to appear on the basis of his claim against us as we are advised by our American lawyers that, in their opinion, his claim against us is without justification.

MR. McGILL: Mr. Chairman, I would like to ask Mr. Moore is Mr. Clement then appearing as legal counsel retained by McKenzie Steele Briggs?

MR. MOORE: No, Mr. Clement is appearing as someone who is knowledgeable in the transactions that took place between McKenzie's and Sabetha Seed Co. He is not appearing as legal counsel at all.

MR. McGILL: Mr. Chairman, I don't see any reference to it in this year's statement but there was a claim against a Mexican seed company as a result of some negotiations or financial arrangements with that company. I think it was Bon Jardin, Good Garden, perhaps. How much was the loss there and has that claim against this Mexican company been written off completely at this stage?

MR. MOORE: Mr. Chairman, that claim was written off I believe approximately three or four years ago and, yes, it was completely written off. The owner of the Bon Jardin Seed Company has since been killed in an air crash and as I said the claim was written off at that time.

MR. McGILL: How much was that loss?

MR. MOORE: I'm just guessing here, Mr. Chairman, but I think it was about 100,000 or

150,000 that appeared on McKenzie's statement at that time but I really am going by memory here.

MR. CHAIRMAN: The Member for River Heights.

MR. GARY FILMON: Mr. Chairman, I just wanted to touch briefly on the topic that the Member for Brandon East raised concerning the goodwill in the statement. I think the impression has been left that it's a definable quantity that involves sort of the reputation in the marketplace of a particular company, but my understanding of it from accounting principles and business principles, is that the business can be valued either on its assets or a multiple of its earnings. In many cases, by valuing a business on a multiple of its earnings when it's being sold to somebody, that produces a higher value than you would get for it if you just sold it based on it asset value. That difference and between those two valuations generally shows up as an item called goodwill on the statement. I would assume, and I can be corrected, but I would assume that the half million dollars that occurred when McKenzie bought Steele Briggs was a difference between the asset value and the value that was paid for it based on some other valuation, likely its earnings' potential. That item can and does change over a period of time based on a company's own value change. If, in fact, McKenzie, in the marketplace or McKenzie, in its operations has been losing money, then it could not be valued higher based on a multiple of its earnings and therefore the goodwill does change over a period of time. I think that we would be wrong to start to second-guess or change decisions based on recommendations of accounting principles that are endorsed by the Institute of Chartered Accountants and, indeed, the chartered accountants who do the audit for McKenzie Seeds. We're not the experts in that field and, surely, we turn to the experts when we make decisions of that nature. I would suggest that we would be very wrong to artificially inflate the value on the balance sheet by including an item that doesn't appear to be realistic in the judgement of both the institute and the accountants for the company.

MR. CHAIRMAN: Any comment? Then back to Mr. Evans, the Member for Brandon East.

MR. EVANS: Thank you, Mr. Chairman. On this matter of changing procedures and these write-offs and the elimination, goodwill and so on, I'd like to ask a question. Why was this not done last year? I mean, some of these things could have been done last year, for example, without arguing with the Member for River Heights, I will defer to the experts. But we've had this item in here before, now there is a change, eh? —(Interjection)— Well, Mr. Chairman, through you, yes, the board I would understand and I will ask the chairman of the board now or the president, obviously, the board makes the decision but also I would think it's made a decision based on the expert advice given to it. My specific question, I go back to it, why wasn't it done last year?

MR. MOORE: Mr. Chairman, the recommendation, as far as goodwill is concerned, had been recommended by the Auditors last year but it was not accepted by the board. Why they did not accept I really don't know.

MR. EVANS: Mr. Speaker, I am in favour of a good realistic statement. I mean I am not suggesting, I want to make it clear, I am not suggesting that you should have something in there that shouldn't be, but I am trying to find out why these particular changes.

Just going back then to the statement of earnings, I wonder if the Chairman or the President can elaborate on why we had this loss. There was some reference to the weather, but I see the sales were up, from 1978 to 1979 they were up roughly about 500,000, 1979 over 1978. Fortunately, the cost of sales were up a little more than that, so that your gross profit is down a slight amount, but then your expenses were up by roughly 600,000.00. I wonder if the Chairman or the President perhaps could elaborate on why some of these numbers are changing the way they are.

MR. MOORE: Mr. Chairman, the cost of sales would take a dramatic increase at that particular moment in time in 1979. A couple of reasons: (1) the effect of the change in the value of the Canadian dollar really came into being in 1979, however, packets had all been pre-priced and packed long before, but the seed to put into the packets increased substantially because of the change of moving from 10 points over to, say, 15 points below the American dollar. Most seed is bought in the United States with the exception of some grasses which are bought in Canada. That had a major effect on it. The company had a problem last year with its onion set operations, which we can only put down to human error, where the inside of shipping cartons, in order to strengthen them, was waxed and that waxing caused the onions to deteriorate and cost the company about 120,000 in rebates to its particular customers, and that price went into the cost of sales.

There was also a substantial increase in the cost, in this particular 1979 year, in the cost of amortizing re-packaging costs into the cost of sales, which had not been there in previous years to the same extent. That is because as packet prices go up, if you have 10 percent inflation and you had a packet at 25 cents retail, then the problem was only a two and one-half cent, but when you are up to the 50 cent packet, the problem becomes a 5 cent problem, so it really multiplies. Inflation goes as the problem with having pre-priced packages continues to multiply itself. That figure was much more substantial last year, about 150,000 more than it had been the year before.

As far as the expenses are concerned and overhead, I think, was kept pretty much in line, the selling expenses mainly went up because of the efforts the company was putting into the Mail Order Division, and the preparation of an additional catalogue, which is included in the selling expenses, and the cost of fulfillment of the orders from that catalogue. Administration expenses went up mainly because of the cost of writing off the Sabetha Seed Company 60,000, which was included in Administration, and we had one major loss that was unexpected and came in after the fiscal year end, but because the accountants got to hear about it before they closed the statement they must include it in the 1979 statement, was the receivership of a company in Quebec, La Salle Factor, which was a very big chain that went into receivership in about the second week in November or third week in November of this past year, and we had a heavy loss with that company. Those are the main items that affected the cost of sales and the expenses.

MR. EVANS: We have looked at the Income Statement. What about the cash flow of the company? I think I know what the answer is, but I am going to ask the question anyway. Does this procedure, does this change have any bearing whatsoever on the cash flow? As I said, I think I know what the answer is from elementary knowledge of bookkeeping, but what is the cash flow situation, which I think is a criticial item to know about?

MR. MOORE: Mr. Chairman, the company had a line of credit of 7 million at the Bank of Montreal and 3 million loan under Part II from Manitoba Development Corporation, a total of 10 million line of credit. This year we had to go back to the bank and ask them to increase the credit, which they did by .5 million, however, we only had to use 200,000 of that line of credit. Indeed in February of 1980 the company's lines of credit at the Bank of Montreal was no greater than it was in 1975, the cash flow requirements had really not changed over that period of time.

MR. CHAIRMAN: The Member for River Heights.

MR. FILMON: Mr. Chairman, I wonder if I could ask a couple of questions. Firstly, what percentage of McKenzie's sales are made in the United States?

MR. MOORE: Mr. Chairman, a very very small percentage of its mail order sales, no other sales at all.

MR. FILMON: Okay. Secondly then, as I understand it, Mckenzie has a paid sales force throughout the various provinces and other places. Is that correct?

MR. MOORE: That is correct, Mr. Chairman.

MR. FILMON: Why would we not have commissioned agents or representatives so that our cost of sales becomes a fixed percentage of the sales and goes up and down with the sales going up and down, as opposed to the risk you take when you have sales people who are on salary whether or not the sales meet expectations? Has that ever been evaluated?

MR. MOORE: Mr. Chairman, at one particular point in time the company had sales agents in the Maritimes as a trial, and it really is very very risky for a company like McKenzie that is selling on a seasonal nature, because what can happen is that the agent turns around and goes to your competition, as did happen in the Maritimes, and sells him the bill of goods that he will handle this product and you find out about it about one week before you think it is time to start shipping your product. What you really would be doing would be turning around and handing over the control of your product to outside forces. In the Maritimes it really did not prove to be much cheaper, having a sales agent. I think Smith Brokerage was the name of the company we had at that time.

MR. FILMON: My experience, Mr. Chairman, is that you undertake an agreement with these people that prevents them from going to your competition and taking on their product. These things are done all the time. There are commissioned agents and manufacturers agents operating throughout this country, and there are agreements that can be arrived at that would protect McKenzie Seed or anyone else. The major advantage it has, as I say, is that it is only in proportion to your sales that you pay commission as opposed to your sales force. If they for some reason slacken off or fall off in their production, you still pay them their salaries and then sales costs become a larger percentage of your cost of goods sold. It seems to me that there is just as much risk, if not more that way, and I suggest that it is something that from my view should be looked at rather closely.

The other thing that I would like to ask, Mr. Chairman, is the reference in Page 7 to the counterclaims with respect to Sabetha and Bernard Wiltz for 830,000 against McKenzie Seeds. What's the basis, or the reason behind the counterclaims that they have filed against McKenzie?

MR. MOORE: Mr. Chairman, Bernard Wiltz owed McKenzie approximately 140,000 when this particular agreement that is referred to here came into being. McKenzie's had, going back some years, agreed to custom package for Mr. Wiltz and ship his stuff to the States. In 1972, McKenzie's had a massive fire and was unable to keep its part of the agreement. And so over a period of time, in 1974 or 1975, I'm not sure which, an agreement was entered into with Mr. Wiltz that he would take back inventories that we were holding that would allow him to continue in the seed business, together with some assets such as metal displays and machines. Mr. Wiltz paid the first 80,000 and then decided not to pay any more. There were occasions when McKenzie's had talked to Mr. Wiltz about the possibility of purchasing his company as a base for doing business in the United States, either strictly in the packet seed business or through the Reader's Digest organization of quality service programs in the United States.

And Mr. Wiltz now claims that he was coerced in some way, shape or form into making the agreement that he did with McKenzie Seeds, and he has quoted all sorts of corporate laws in the state of Kansas, again which our lawyer says there is no justification in this claim.

MR. FILMON: And the Sabetha one?

MR. MOORE: Mr. Chairman, the Sabetha claim and Bernard Wiltz is the same thing. We hold notes against Sabetha Seed Company which are personally guaranteed by Mr. Wiltz, who is the major shareholder in Sabetha Seed Company.

MR. EVANS: Now, getting back to the cash flow situation, Mr. Chairman. Is the management, or the board satisfied with the cash flow situation? Obviously, whenever you have a bad year, it tends to squeeze you, but have you had to make any unnecessary financial arrangements because of the last fiscal year?

MR. MOORE: Mr. Chairman, as I mentioned, we had to go to the bank and arrange for another half-million dollar line of credit, for which they asked for a guarantee from the Development Corporation, and we used that line of credit — we used 200,000 of that line of credit — for a period of about three or four weeks back in February or March. We did not have to make any other special arrangements at all, nor do we foresee ourselves having to make special arrangements. We have been able to increase the sales to the projected 9.2 within that continuing cash flow level that we have.

MR. MAZER: It seems to be my observation, Mr. Chairman, that cash flow is also improving with the improvement in sales in the direct catalogue part of things, because there isn't a long term carrying of inventory and other such expenses related to it. As the sales in that area increase, the cash flow tends to improve itself.

MR. EVANS: Thank you. Well, I'm glad to hear that comment by the Chairman and the President. So in effect then the bookkeeping adjustment that we've been advised about this morning, and even with this relatively poor year that we've had taken into consideration, basically you're telling us that the company is no less viable today than it was last year. Is that correct?

MR. MAZER: That's right. Basically, as far as the operating part of the company, I would see no great difference. This is what the board of directors, to this point, has been concerned at viewing as far as past experience, has been the actual net profit and loss on the operating basis of the statement. Special items and special write-offs have not been of a major concern to us at this point, and I think that will be our long-term goal, to have that bottom line on the operating side of the company in a viable position.

MR. EVANS: So essentially this bookkeeping adjustment, this accounting adjustment, hasn't made the company any less viable, and as you say, what you're suggesting, it's more realistic. But it hasn't — what has happened is not a recognition that the company is becoming less viable. In effect, you're telling us, Mr. Chairman, Mr. Mazer is telling us that the company is basically viable, and I guess then it gets you back to the definition of what is viable, and you want to ask yourself, what is the return that you get on the money invested? What is the rate of return? And in this case, of course, because it has an unduly high debt burden, I don't know what amount of that debt you should take off, perhaps all of it but whatever, you have to look at all the interest that's been paid plus whatever profits if there are profits, as something that is being generated by that company.

That is a net revenue that is being generated and you might want to compare that with the investment. Thus far, the government has not sunk any money. I know there are loans in there and of course if the company stopped tomorrow, you may not be able to pay those loans off, but that's not untrue for a lot of other companies. I go back to 1970 when Versatile was going to have its doors closed by the Bank of Montreal, but the Bank of Montreal called the loan. I don't know whether the bank would have secured all of its loan or I don't know whether the company could have remained solvent, I don't have all that information. But I would say, as a going concern Versatile was a great thing and is a great thing. When the bank decided to call the loan, it was about not to be a great thing. Fortunately, the MDC at that time stepped in and assisted the company by advising the bank that it would support the credit of Versatile. But I'm suggesting to you this is a viable going concern as I can see it when you consider all the interest revenue that's generated plus profits in some years, and when you compare that to your investment, and really, there's been no equity put into this company by the government or whatever equity was put in, was put in decades ago by Dr. McKenzie and whoever may have been with him in that corporation at that time.

In other words, what I'm saying is, if you estimated the purchase price of the company and just hypothetically, if you sold the company or if you estimated a purchase price of let's say at 5 million and the company was generating 1 million in interest and profit, you could say you've got a return of 20 percent. Now that's assuming that, I'm making the assumption that you have an unreasonably high debt load and if that debt could be put aside.

What I'm suggesting is that there is a basic viability about the company. It is generating interest, in some years it has generated profit, so if you compare that with whatever purchase price, if you compared 1 million say with a purchase price of 5 million, what I'm saying is you've got a greater return of 20 percent. And of course, if it is sold at some time at a lower value, I would suggest that it's a possibility for whoever would buy it to experience a very large and very appreciable rate of return.

At any rate, I'm glad that the new chairman agrees that it has this basic viability about it. What plans — and I'd like to direct this to the chairman — what plans does the board have to make the company more profitable? Has the new board discussed any new procedures or policy changes that might assist the company in its growth?

MR. CHAIRMAN: Mr. Mazer, chairman of the board.

MR. MAZER: First of all, Mr. Chairman, if I might make one observation concerning Mr. Evans' observations about the company, I do believe that the product that the company is handling and the manner in which it is handling it appears to be sound. As far as the value of the company, I wasn't commenting on that point. I'm not, at this present time, in the position I'm in, purchasing the company, I wouldn't even care to comment on that today. What I am saying is that there would be maybe two points of view between viability on operating on a product line basis and on a value basis. That would be all of it on that point.

On the last question, Mr. Chairman, I can't make any commitment today regarding the planned actions of the new board of McKenzie's as our initial business sessions have not yet been held. I can say that by observation, it appears that a number of ideas or concepts are now in place carried over from the previous board and from current management that are encouraging. I think one of the things that is most important to year-to-year operations is the fact that regular price reviewing and price structuring will be a priority item for management so that McKenzie's will not get caught in a lag or lapse situation of having product priced inappropriately for the market or for its expense-side of things.

As well, we are encouraged to see that year to year better and more consistent accounting procedures and reporting procedures are being followed and as a result, we feel that using that extra asset or that desirable development, in the long term we can achieve things better than they might have been in the past with a less desirable type of accounting procedure.

As well, it appears that expenses are well scrutinized in the company and are capable of being kept under control. That will be an area that will be under constant observation by the board, I am sure. As well, the board sees a number of areas of the company ripe for further development and expansion and closer examination, and of course the direct marketing has been referred to before and that I think would be one obvious area where the board will be concentrating efforts. Otherwise, Mr. Chairman, I am in a difficult position to comment more fully until such time as the board is comprised of more and complete facts and after we have duly considered the approaches we may be taking.

MR. CHAIRMAN: The Member for Brandon East.

MR. EVANS: Is the chairman of the opinion that the company can show a profit without refinancing? In other words, are you that optimistic that you can generate sufficient net revenues that you would outweigh the interest.

MR. MAZER: I would prefer not to comment on that, Mr. Chairman, I'm sorry. I would prefer not to comment on that at this point in time until we have studied that question more closely.

MR. EVANS: The previous board had a position on refinancing. Has the present board a position on refinancing of the company?

MR. MAZER: No, we have not had a chance to develop an opinion on that. I am sure we will be and at that point in time, passing on our recommendations to the shareholder.

MR. EVANS: I overheard Mr. McGill says they haven't met yet. I understood that he did have a meeting with the board.

MR. MAZER: Yes, it was . . .

MR. EVANS: They did have a lengthy meeting, I understand.

MR. MAZER: That was a familiarization meeting to acquaint ourselves with the operations of the company, the background and so on. The issue has not been raised, though.

MR. EVANS: What will happen, in your view, if there is no refinancing this year or next year?

MR. MAZER: I think that would be purely speculating and so I don't know if I could give an educated answer to that at this point in time. We would want to review the current position of the company in more detail with management. As I have indicated earlier, the financial reports to date for the 1980 fiscal year are encouraging, so that would be all I'd be able to comment on.

MR. EVANS: I know the president mentioned the debt situation; 7 million to the bank, 3 million to the MDC, for a total of 10 million. Is that all long-term debt, or some of that is working capital, is it not, so-called?

MR. MAZER: I might refer that to Mr. Moore.

MR. MOORE: Mr. Chairman, all of it is borrowed on the basis of short-term debt but indeed, yes, some of it could be considered as long-term debt. The peak is, as I mentioned, 10.2 and the low was projected to be 7.5, which would be around August.

MR. EVANS: I'm sorry, I wonder if Mr. Moore would repeat that.

MR. MOORE: The peak is 10.2 and the low is projected to be 7.5 in total, but all the money is borrowed on the basis of short-term debt with floating interest charges.

MR. EVANS: What are the interest rates now payable by the company to the bank, and what are the interest rates now payable to the MDC?

MR. MOORE: The interest rates, Mr. Chairman, to the bank — I don't know exactly what they are today, but as of May 12th, the interest charged by the bank was 16 1/2 percent, this is the Bank of Montreal prime rate, whatever the amount is exactly today. By a queer quirk of things, the Government of Manitoba rate is 1/4 of 1 percent above the Bank of Montreal rate. The Government of Manitoba part two loans are on the basis of the general rate charged by the chartered banks, the Bank of Montreal's rate is 1/4 percent below the rates charged by other chartered banks, and as a result the government rate is 1/4 percent higher than the Bank of Montreal.

MR. EVANS: So the MDC rate is 16 3/4 percent.

MR. MOORE: It was 16 3/4 on the particular date I'm talking about.

MR. EVANS: As I see the interest charge payments last year were 1,078,000 approximately which reflects to some extent higher interest rates but they've been very much higher this year even, unfortunately, so I would expect that that interest expense would shoot up quite considerably.

MR. MOORE: Mr. Chairman, we would expect the interest expense to go to somewhere between 1.3 million and 1.4 million in the present 1980 fiscal year.

MR. EVANS: I don't know, Mr. Chairman, whether the president has this or his controller, but how much interest has been paid to the MDC since the beginning of lending from the MDC? How much interest has been paid to the MDC since the beginning of the loan from the MDC?

MR. MOORE: Mr. Chairman, I don't have that figure, nor have I any idea because of the fluctuating rates. I think when that loan was originally taken out, the interest rate was around 7 percent, but I can tell you that the fiscal 1979, 401,000 was paid as interest to the 3 million part two loan from the Manitoba Development Corporation and 677,000 to the Bank of Montreal.

MR. EVANS: We'd have to go back through the years to get the actual interest payments but it looks as though it will be into the millions of dollars, moneys paid to the Crown by the company, which is good for the Crown inasmuch as the Treasury borrows at a rate lower than it charges McKenzie Seeds. There is a differential of, I'm not sure what the present rate of borrowing is by the Government of Manitoba, but I know it's not 16 3/4 percent; it's quite a bit lower than that. I am reminded, Mr. Chairman, that the CFI, which is now called ManFor, had a huge percentage of its debt written off. I know some of the members present may remember. I don't remember but it was something in the order of what, 20 million, 30 million, a huge write-off. Because without that, it would be impossible to even begin to show that company in the black and even with that huge multi-million, tens upon tens of millions of dollars write-off, it's still in the red, it's still not a profitable operation. I would say if we as government, I say, we as government, all parties involved, and we're as kind to McKenzie's as we were to CFI in that respect at least, in this one respect, McKenzie's would be in a lot better position at least in terms of what this financial statement shows. But nevertheless, I recognize it has this — I believe it has this basic viability and therefore can continue to make a basic contribution to the Manitoba company.

On the matter of the sale of the company, does the present board have any views on the sale of the company. As we all know, bids were . . . there was a national advertisement placed in the papers across the country last year by Mr. Parsons, former head of the Manitoba Development Corporation, and I think at least five bids were received and considered by the government. For various reasons these bids were rejected. I had a copy of that advertisement with me; it doesn't matter. At any rate, does the board have any particular view on the sale of the company? It seems to me that the previous board had come around to certain views on this.

MR. MAZER: No, we have no position on that matter. Our primary consideration is the profitable and successful operation of the company.

MR. EVANS: I wonder, Mr. Chairman, if the chairman can indicate the names of the groups or companies that bid on McKenzie's last summer, or maybe the president can, or the Minister.

MR. CHAIRMAN: Mr. Moore, general manager, or chairman of the board, which would want to answer? Mr. Moore?

MR. MOORE: No, Mr. Chairman, I think the Minister should comment on it. Oh, he's gone.

MR. EVANS: I have a statement, a press clipping from the Winnipeg Tribune of last year and it states: Five bids, all with the Manitoba flavour have been received on the government-owned McKenzie Steele Briggs Company, a government spokesman said Tuesday. Not all the offers to purchase the company come from Manitobans but all have some connection with the province, said Norman Bergman, special advisor to Mr. Bob Banman, Minister responsible for the MDC. No international firm submitted a bid. We know one of the companies, it's become public knowledge through other statements made by Mr. Besant of the company that Bohmer Box bid, so we know that company was one of the five. And I'm going on, Bids for purchase of the Brandon Seed Company were opened Tuesday morning but have not been made public. However, two of the bids originated in Brandon, one from a group of businessmen and the other from company employees, sources said. Mr. Bergman said the bids will be analyzed by MDC staff, who will make a recommendation to Mr. Banman. Mr. Banman with then take it to the Cabinet for final decision likely within three weeks. Mr. Bergman said the longest proposal is 26 pages and the shortest is 11 pages. He said he thought international firms had plenty of time if they wanted to submit bids.

At any rate, it seems to me from that information, that we have some information. There were two local bids, one from the employees, one from a group of businessmen in Brandon, and then there was Bohmer Box. It has become public knowledge. I was just wondering, now that the Minister is back in his seat, whether he could indicate who were the companies or groups who bid on the company last summer.

MR. CHAIRMAN: The Honourable Minister, Mr. Banman.

MR. BANMAN: Mr. Speaker, without getting into that, I think we went through that in the Legislature when we had the Order for Returns filed by the member opposite. He knows what my explanation was at that time and that explanation still stands.

MR. EVANS: I'd like to ask a question. It's indicated here that the employees were one of those who made a bid and I know that the company has 200-odd employees at the peak so that may be a large number, but there is also reference to a group of Brandon businessmen and I'd like to ask the chairman whether any member of the present board were among those locally who bid for this company.

MR. BANMAN: Mr. Chairman, I think we have a unique situation here where both gentlemen who are sitting before you were involved in one form or another with some group that was interested in purchasing the company. I might add that both groups have notified the shareholder that they withdrew their bid or are no longer interested.

MR. EVANS: I see. I would understand then from the Minister that the president had been part of the employee that's referred to here that was interested in purchasing and also Mr. Mazer would be part of the Brandon business group, as I would understand you. Then I understand therefore from the Minister's statement, that no one else on the board was interested in purchasing the company at that time.

MR. BANMAN: Not to my knowledge.

MR. EVANS: As I understand it then, the chairman is no longer interested in purchasing the company. I'm wondering if the Minister could advise or maybe the chairman, I don't know, whether there are any groups who are presently approaching the government for possible purchase for the company. At the present time, are there any groups, firms, companies interested in purchasing.

MR. BANMAN: Mr. Chairman, there might be but there are no, how should I say, hard proposals or considerations before the shareholder, or I don't believe the board, with regards to any firm offers at the present time. There might be letters coming in from time to time expressing interests in certain packages going out to those individuals, but there is no deal, if I could call it, that is before Cabinet or before me at this present time.

MR. EVANS: Can the Minister advise, Mr. Chairman, whether the government is actively soliciting possible purchasers or you're simply in the position of receiving anything that comes along as you were indicating a minute ago?

MR. BANMAN: If the member is asking whether we are advertising or if we have hired a sales agent out east, we have not hired a sales agent. We have a legal counsel who is co-ordinating any enquiries, in other words is looking after or providing information to people who are interested or possible prospects, but we are not advertising it as far as I know. I haven't authorized any advertisements or anything like that.

MR. EVANS: This brings me to a question that I was going to ask some other time, but it's a good time. What is the function of Aikins and MacAulay? I understand from previous statements that this is a Winnipeg legal firm that has been retained in conjunction with the McKenzie's operation. I was wondering if the Minister could give us their terms of reference.

MR. BANMAN: Mr. Chairman, it was made very clear just about a year ago when we asked for proposals with regards to McKenzie Seeds on a public basis that there would be a number of conditions attached to the sale of the company if such a sale should take place. In other words, the retention of the jobs, the company to locate in Brandon, and also the perspective purchasers had to show us what kind of marketing and what kind of expansion they anticipated. In order to try and make sure that the provincial position was protected to the utmost, we retained some legal firm who is familiar with this type of corporate law to protect exactly the positions that I was talking about. So they have been advising us in a legal capacity to make sure that the things that I have just spoken about in negotiations with anybody and looking at the other bids, that those particular things were in there and that they have been acting as our advisors with regards to that and continue to do so.

Should a formal proposal come forward, these are the things that we would want to make sure that before we enter into any agreement or any arrangement with any company, that we are assured of these things and that we have a legal stand should anything not go in a manner that we think they should be going, than we would have the legal teeth in our agreement, or whatever, to make sure that any perspective partner or purchaser would live up to the commitments that he or she made at that time. I think the member will appreciate that you need good legal advice for something like that and that's what Aikins and MacAulay is doing.

MR. EVANS: Yes, well, then on Aikins and MacAulay and its role, would that company therefore have been involved in the negotiations with Bohmer Box or Mr. Besant? I understand he owns several companies. I'm not sure whether it's Bohmer Box or Box Board, or whichever one it is, that is particularly involved, but would Aikins MacAulay be involved in the precise negotiations with Mr. Besant, or would they be acting, as you were saying, strictly in legal advisory roles, or they part of the negotiations?

MR. BANMAN: Mr. Chairman, at the outset, so that none of these things would fall in between any stools, either between the Minister's office or the board or the general manager, it has been determined that any negotiations have to go through our legal counsel so that we don't have any foul-ups or snags with regard to any of the proposals. All correspondence now is directed to Aikins, MacAuley who forward a statement such as before us today and some other information dealing with the company, so they would have been carrying on negotiations and did with the other interested groups.

MR. EVANS: Thank you, Mr. Chairman. Mr. Besant made a number of public statements some months ago when it became public knowledge that he was now negotiating with the government again for the purchase. I have a couple of questions, number one, why would the government entertain a bid or a consideration with a company which was one of the five that had been rejected? I could almost accept the idea of the government going back talking to the employees or going back talking to a local business group. But why, of all of the five, would you entertain a subsequent proposal — and that's what it was — from one of the five bidders?

MR. BANMAN: Mr. Chairman, I think if we want to be open and fair about this, if somebody does have a proposal which they wish to make to us and something that would be attractive and enhance the operations of McKenzie Seeds, far be it from me to say that we won't sit down and talk to those people. That's precisely what happened here. It was felt by the people involved in the negotiations that this might be deal which could further the operations of McKenzie Seeds in Brandon and the negotiations were followed along that line. Unfortunately, it didn't work out the way the negotiations were conducted and nothing happened. So, all I'm saying is that should some of the other groups — and I mentioned this to the member before — should some of the other interest groups be interested in forwarding certain proposals or ideas to us, we're not adverse to sitting down and talking to them.

MR. EVANS: Therefore, this would include the employees, Mr. Chairman. This would include the employees as a group.

MR. BANMAN: As I mentioned before, Mr. Chairman, I have received notification from both the employees' group and the Brandon group that they were no longer interested.

MR. EVANS: No longer interested, I see. Well, specifically, can the Minister advise why the latest Bohmer Box or Mr. Besant's latest offer was rejected, because he made public statements to the effect that he thought he had a deal or words to that effect and it was just about to be consummated, but at the last moment it fell through? Can the Minister enlighten the public and members of the committee why the government rejected the bid at that time?

MR. BANMAN: Maybe, Mr. Chairman, both the rejection of the six tenders as well as the last negotiations clearly emphasizes the position that the government has taken all the time. That is, unless we can receive the right assurances and unless the sale is in the public interest, we will not be doing anything to change the ownership structure of the company. I guess, maybe, there is no stronger evidence that the government is concerned about the operations of McKenzie Seeds and the viability and the retention of the company in Brandon and continued employment, than precisely the two things that the gentleman opposite mentions. Unless we are assured and are convinced that this is in the best interests of the people of Manitoba and the people of Brandon, we will not be making any sales. I hope the member will appreciate that is the proper approach to take.

MR. EVANS: Mr. Chairman, I've heard the Minister make statements to that effect before and I'm glad to hear him say it again. Mr. Besant, in his public statement, referred to the fact that how he could turn the company around and make it profitable, etc., etc.; of course, as we indicated earlier that's certainly a function of the selling price. If you sell it for a song and a dance, sure, you're going to make profit. Anybody in this room will make a good profit with McKenzie Seeds. So the selling price becomes very very critical and the terms of selling — you might have a generous selling price but with very little cash being put up by any potential buyer. Again, it becomes a very lucrative proposition for some potential buyer. Would the Minister care to comment, or maybe the chairman or the president, this adjustment that has been made and has been announced today in the evaluation of assets and so on, including inventory, do you believe, are you of the opinion that this adjustment really makes it easier to sell the company? Because there was reference made to the reasons for this, but putting it to you very bluntly, is it easier now for the government to sell the company?

MR. BANMAN: Mr. Chairman, one of the statements that the member opposite has been making is that the company really has never lost any money or it hasn't cost the taxpayers any money. I think that statement has to definitely be put in proper perspective. The company has a substantially higher debt load than it has equity. In other words, we have been pumping money into this company based on a normal business operation. This company would not have survived; it would not be in operation today if it was not for the Government of Manitoba underwriting almost the whole operation. We've got, what is it, a bank guarantee of 3.5 million now and 6 million in an MDC loan, which means out of the 10 million loan figure right now, we have roughly 3.5 million borrowed at the bank which is more than amply covered by the inventory and the fixed assets. There is no bank or any lending institution that I know of that if you go to them with this statement and say we need capital, they would just say, I'm sorry, we're going to close you down.

So what we have been doing is we have been increasing our guarantees and maintaining our position in that company and basically underwriting even the — we haven't got a guarantee with regard to the Bank of Montreal with regard to the total 10 million, but I think it's understood and the member opposite will realize that any Crown corporation that goes under doesn't pay out 5 cents on a dollar, they pay out 100 percent on a dollar, whether it be Saunders Aircraft or whatever. So we are on the hook for 10 million with regard to this company.

The thing that we are trying to do, I believe, with this statement is trying to better reflect the real position of the company. In other words, what is the equity position that the people of Manitoba have within this company? It's not 10 million, it's somewhere between that figure and maybe halfway down or something like that. It's a figure that if then we do any refinancing that we will have to come to grips with so that we can put the company on a proper basis. I think all of us in the committee would like to make sure that the company continue to operate should be put on a basis where they can operate so that the incentive for management as well as the board of directors is one that they can see light at the end of the tunnel. But let us not be under any illusions that, if we do refinancing what we are basically saying at that time, we will be, if we could give them 3 million, 4 million, we are basically at that time writing that money off. I think, Mr. Chairman, this particular item here referred to extraordinary write-offs is one which shows clearly what kind of assets we really have there. What is a tangible asset and what isn't and will it facilitate us in either a partnership agreement or a refinancing arrangement which, as the chairman mentions, the board will be looking at over the next two months?

MR. EVANS: The Minister talks about you convert so much of the loan into equity and God knows we've talked about this around this table not only in the House and around this table, but we've spoken about this over the years, both when I was on that side of the table as well as being on this side of the table for a couple of years. So, this is a bit of old hat, but what the Minister is saying is that if we write off then that's, you know, if we turn some of that debt into equity, that's a write-off. Well, I would say it depends on whether or not the company can continue to generate that revenue. If you generate that revenue, ultimately I would hope, I would think, that if the company can be made profitable, if it continued to be viable, then surely there will be some return on the share capital. One would hope that, that the company would pay whatever it can. If there's a decision made by the board to pay out the profits, I know profits can be retained. You can have retained earning for growth or whatever purposes but, nevertheless, there is still a possibility that there's a return on the dividend. So I don't think you can blanketly say, well, you know, if we convert X millions of dollars from debt to equity that's a write-off.

I would also suggest, Mr. Chairman, somewhere along the line — and I'm not blaming the present Minister, I'm not blaming anyone, I'm just making this as an observation — somewhere along the line there should have been equity but the Member for Brandon West made that point. I agree with him; there should have been equity put in this, I would suggest, at the time that Steele Briggs was purchased which was a good move, the purchase of Steele Briggs protected this company's position in the Canadian market. Without it, it would be finished; it would have been gone years ago. I maintain the purchase of Steele Briggs was a good move but there was no equity put into the company when Steele Briggs was purchased. It was a loan, and I say that no businessman can ever hope to operate without putting some equity in. I believe that the company is deserving of some equity. It's by virtue of the fact that that is more of a normal practice.

At any rate, I would gather then that this change, this accounting change and so on, this write-down, does put it in a position for the government. It's easier for the government to sell it, I would suggest, with this adjustment that has been shown here. In fact, I guess this is referred to in this data.

MR. BANMAN: Mr. Speaker, I think all we're trying to do is accurately reflect the position of the company. If I misquote the member opposite, then he can correct me, but I think an hour ago he said that anything that more accurately reflected the position of the company, he was for it. This is really what is happening here, whether it be refinancing or a partnership agreement, I think that the people of Manitoba have to realistically know what kind of an asset they have there. Admittedly, all around this table, that asset is not 10 million even though the loan is that. If the member opposite feels that we haven't a 10 million asset there, then I don't see any need for an equity write-off or an equity position.

So what I am saying to the members of the committee, as well as to the people of Manitoba, we have an asset there, it's not a 10 million but we do have an asset there and let's accurately reflect what we really have there. That's all we're doing here and, Mr. Chairman, it was made very clear and as the statement points out, nobody is trying to hide anything and with accounting changes here, I knew, having been four years in the opposition, I have a little bit of opposition mentality, too. One of the things that I was concerned about when the statement came is to reflect accurately the extraordinary write-offs. We have done that in the statement to show everything above board and it is an attempt to rationalize the assets that we have there and to see really what kind of an asset that the shareholders, the people of Manitoba, have. So that's the only thing we're doing, but I think it puts the thing in better perspective for either a partnership arrangement as the statement mentions or refinancing and the determination of an equity debt ratio.

MR. McGILL: Mr. Chairman, I just wanted to comment on the statement made a moment ago by the Member for Brandon East when he said that if the company had not bought Steele Briggs that they would have been out of business. That's the way I interpreted the statement made by Mr. Evans. I don't know what basis he has for that view, but I would remind him that he almost contradicted himself by saying that they bought it entirely with borrowed money. That added considerable proportion of the interest charges which this company has had to bear annually and which has been a great problem for them. So while it might have had some upsides to it, the downside in my view was much greater in that they added a tremendous burden of annual interest debt by borrowing all the money. It is normal for businesses who wish to acquire additional outlets or to buy other businesses to be in a position to be able to provide part at least of the purchase price out of the funds which they have available, but it's most uncommon for a company, in my view, to go out and borrow the whole purchase price and then expect that they will be able to operate in a manner that is more profitable than it was previously. I know this is past history and I don't think we should take the time of the committee to debate again what was an action taken at that time under the previous administration, but Mr. Chairman, I must object to the statement that if they hadn't bought Steele Briggs, that the company would have folded.

MR. EVANS: Mr. Chairman, we have discussed this before, but Mr. McGill states, and I'd like to ask, I don't consider myself to be an expert on this operation, but my understanding is that it was vital to maintain a fair share of the Canadian market, and Steele Briggs had the larger share, a much bigger share than McKenzie's had. But I would not agree with the Member for Brandon West when he says what a company has to do if it wants to expand or acquire assets, it should take it from retained earnings. Some companies can do that, but it's quite legitimate and it's pure free enterprise capitalism for the company also to go to the shareholders, and say to the shareholders, we have an opportunity here, if that be an opportunity that is, in the judgement of the shareholders, worth financing, then the shareholders should be prepared to put some equity into it. That's the only point I'm making and I think the member would have to accept that as a fair observation.

But what I'd like, then, to ask, I'd like to ask the chairman, or maybe it's unfair, maybe the president, what are the advantages of becoming 75 percent of the market as opposed to 20 percent, or 25? Because really, we're talking about two companies. The company that was in existence when I became Minister is not the company that's in existence today. It's only one-third of the size in terms of employees, it has today, I guess, about 75 percent plus of the market, whereas it only had 20, 25 percent back around 1970. I mean, we have a big, we have the only national package seed company in Canada, we have more jobs, more payroll in the city of Brandon, it seems to me that it was a good move. But I'd like to ask then, the president, what of this, if you remained in a minor position? And again, it may be unfair to ask this of the President, because there are so many other variables that you could take into account, none of which we may have knowledge of, or full knowledge of.

MR. MOORE: Mr. Chairman, there certainly are some advantages in the rationalization of the sales force, by putting the two companies together. That was the main advantage. The administrative costs are much less in operating one company than they were in operating two companies. That was the main advantage to either the Steele Briggs operation and/or the McKenzie operation; as it turned out, it was to McKenzie's advantage.

MR. EVANS: I think there is no question that the acquisition of Steele Briggs added substantially to the size of the company. There is no debate on that. I would like to point out, Mr. Chairman, that what we've got here, we have a set of books that reflect the assets and liabilities, they tell us the current situation, but really, let us not ignore the fact, and this is in the statement, that the company is a going concern, it has, at the peak of the season, 260 employees, it has a payroll in the city of Brandon amounting to 1,850,000, according to the statement that was read by the Chairman, in salaries and benefits, and I say that it is making a substantial contribution to the city of Brandon and indeed, to the province of Manitoba. I believe that maybe the president or the chairman could indicate, but I believe probably in the order of 90 percent of the sales of the company are outside of the province of Manitoba. I stand to be corrected, but it's a very high percentage, 90 percent, I'm going to suggest.

Therefore, the revenues that come in, obviously, 90 percent of the revenues that are coming in are coming into Manitoba, they're new dollars, they're fresh dollars coming into the province of Manitoba, paying the salaries of these employees. It's not the government, month after month making new loans to the company, the company is paying interest to the government, and I appreciate the role of the government. The Minister is right. If it wasn't for the support of the Government of Manitoba over the years, the company may not be in existence today. No one is disputing that. But I think it's worthy of support. It's worthy of this government, it was worthy of the last government to support it and see it being built up, because it is making this contribution.

I again say, it's not a burden on the taxpayers, it has contributed hundreds of thousands of dollars of interest payments, and it's paid out literally millions of dollars in payroll in the city of Brandon, and therefore, to the Manitoba economy, and as I say, the bulk of this revenue comes not from within the province, but from outside of the province. And I appreciate the fact that it is in a very awkward position because all the product is brought in, or all the printed packages are brought in, the seed is brought in, everything is brought in. In fact, it's an anomaly that it exists where it does, and the reason it exists is written in history, where it's located at the present time.

But the obvious logical location, from a purely private, I would suggest private enterprise point of view, and I'm not faulting the private enterprise in this, if a private enterprise group purchased it, ultimately in the long run they would find they could probably maximize their profits by a location more centrally located. That is just about common sense, and I'm not debating that, but I want to reiterate that this is a going concern, it has a large payroll, there's a large number of employees, it has made a contribution to the city of Brandon, and it can continue with the right kind of government policies.

I don't want to rehash old speeches or old debates or anything, but I am very pleased that the company has come along as it has. Again, I repeat, I welcome the new board. I hope that they can take up the challenge that they have before them, and I know they will do their conscientious best. I have about one or two questions of detail, Mr. Chairman, and then that would be all that I have. Unless there is some debate on it, then it will take us a little longer.

MR. BANMAN: I just want to clarify one thing. One thing has to be pointed out. The operating statement shows very clearly, Mr. Chairman, that all is not well. This company, if you want to take it on a year-to-year basis, has cost the Manitoba taxpayer last year, 1.1 million. That's what the loss was. And, Mr. Chairman, I don't want it left on the record that the company is doing extremely well and everything is rosy. It cost the taxpayers of Manitoba, on a year-to-year basis, if that company was to have wound up, last year's operation would have cost us 1.1 million. That's what we lost. The company faces some major decisions with regard to how they're going to package to try and increase their gross profit margins, which we saw deteriorate last year. They face problems with regard to higher transportation costs, they face labour problems as far as costs of operation, and the new board will have to wrestle with some of these, and as the Chairman has indicated, they are in the process of doing that. But I think that we should not undermine, or underestimate the cost to the taxpayer of Manitoba.

Hopefully, Mr. Chairman, showing some of the figures that have been projected here today, we can turn that around, but there are things that have to be done to maintain that 75 or 80 percent in the marketplace, certain marketing strategies that will have to be taken, which could quite radically alter some of the things that are happening out there. But I believe that the new board, as well as the management out there, are going to do everything within their power to remain competitive, to try and keep costs under control, and keep that company viable, but I just wanted to put that on the record. The end of the year showed, because of interest rates and because of a number of things, a pretty substantial loss, and let's not forget that. It is being subsidized by the taxpayer by way of a guarantee.

MR. FILMON: Mr. Chairman, I'd just like to add to the discussion that the Member for Brandon East brought forward regarding the purchase of Steele Briggs and some of the financial involvement surrounding that. I think he has given the impression that the company had to buy out Steele Briggs in order to obtain control of the Canadian marketplace in the seed business, and he suggested that it was a very businesslike approach and that was the only way of doing it. Mr. Chairman, there are many companies that go after control of the marketplace, or a greater share by other methods, which include developing a better product line, or doing a better job of marketing within the customer line that's available to them, and it seems to me, Mr. Chairman, that that was an option that was open to McKenzie as it is to any company, not just to go out and buy out your opposition. That, in fact, may be the worst way of doing it, if you pay too much for the company that you're buying out, and then get dragged down by the financing costs that result from purchasing out your opposition.

He has indicated that it's fine business practice to go to your shareholders and ask them to put in more money. That's what he said, in effect, that MDC, in putting more money to accomplish this, it's fine to go to them. But then he's complaining that it's the interest costs that are dragging down the company and giving it a poor financial statement. You can't have it both ways. You don't go and bring more money into the company and then say — (Interjection)— well, equity is the same thing. If you go on an expansion basis and you issue preferred shares, they generally have interest costs attached to them, so if you're going to bring more capaital in, it's going to cost you more in interest, and if that's the case, then you can't argue that the company is only showing poorly on its statement because of its interest costs.

MR. CHAIRMAN: Mr. Johnston, the Minister of Economic Development.

HON. J. FRANK JOHNSTON (Sturgeon Creek): Mr. Chairman, the Minister pretty well brought up what I wanted to mention, that the company does have a loss and they've got a big job ahead of them. I'm sure that the mail order catalogue that we see before us, or is presented by the company, is one that was put together at a lot of cost. The inventorying of all the things that are in this catalogue will be at a lot of cost, so there is very good hope that the catalogue will pay for itself. I really can't see by the figures whether it has yet or not, but I would imagine it hasn't. So there is a large job for the company to do. The company works on one product, seeds, over a two month period, with a turnover in inventory about once every two years. And that is a very large task, Mr. Chairman, to make something pay on that basis. The company needs new products, products that are presently being sold on the shelf, if possible, because the development of new products, the naming of them, or what you're going to sell, is a very large amount of money has to be spent to do that type of development. So the Minister says the company and the board of directors have a very large task ahead of them, and I sincerely hope they make it.

We have also said that the company will be in Brandon under the conditions that the government lays down. And the other thing that interests me, I'm very pleased that there is money coming from outside to pay Manitoba people, salaries, etc., and I'm glad the Member for Brandon East is on record agreeing to that, because if I happen to find a company that is going to pay Manitoban's salaries, export, etc., I don't think he will oppose me if the government has to be of some assistance to them.

MR. EVANS: I don't follow the Minister responsible for McKenzie Seeds when he says it's costing the taxpayers 1.1 million this year. I don't follow that. I wonder if he could elaborate on that.

MR. BANMAN: Mr. Chairman, if you take the net earnings or loss before changes in accounting policies and extraordinary items, it's 1.135 million. That's what we were short last year. And what I am saying to the member is that shortage, there's only one person responsible for that shortage. That's you and me and the taxpayers in the province of Manitoba. What I'm saying to the member is that the people, the taxpayers of Manitoba, are 1.135 million poorer, unless we can recoup that over the next couple of years, than we were the year before, because of the operations of the company and that's the only thing I make. I hope, as I mentioned before, that we can turn that around and recoup some of those losses but I think that has to be said very clearly that it is costing the taxpayers of Manitoba some money to run this company. And I repeat again, that we have, and the Minister of Economic Development has indicated, we are committed to see the company operate and we are committed to see it operate better. But let it not be misunderstood that it is costing you and me and every taxpayer in the province a little bit of money to operate McKenzie Seeds at present.

MR. EVANS: Mr. Chairman, maybe it's a matter of definition but can the Minister tell me just exactly what expenditure from the Treasury in Manitoba has been made to the company to cover this 1.1 million, and of course he can't find any expenditures. There's nothing in the Public Accounts of Manitoba, there's nothing in the Minister of Finance Budget statements, there's nothing in the Estimates of Expenditures of this year which shows a payment by the taxpayers of Manitoba of 1.1 million.

MR. CHAIRMAN: The Honourable Minister on a point of privilege.

MR. BANMAN: Mr. Chairman, on a point of privilege. This company is a 10 million contingent liability to the people of Manitoba. In other words, if your son or daughter goes and buys a car and you co-sign for them and that son or daughter fails to make the payment, you pick up the tab and they come after you. What I am saying to the member is that we lost in McKenzie Seed, 1.135 million last year; hopefully we will be able to recoup that in the coming years with proper marketing and aggressive sales techniques and I truly hope we can do that, but let us not labour under any misapprehension that we paid out 1.35 million more than we took in and that's a simple fact of life.

MR. EVANS: Mr, Chairman, this simple of life, of coure, includes his provision for inventory obsolescence which is a new factor, 390,000, and also, Mr. Chairman, in the interest expense, of course some of that is paid back to the MDC and that is an actual payment. What the Minister is talking about are contingencies, but the company, this company, did pay back to the Crown, it actually paid to the Manitoba people through the MDC, a couple of — oh, I don't know what the number is — but in the hundreds of thousands, a couple of hundred of thousands of dollars worth of interest.

MR. CHAIRMAN: The Honourable Minister on a point of privilege.

MR. BANMAN: Mr. Chairman, on a point of privilege. It has to be understood that MDC has loaned money from the Department of Finance. The Department of Finance sets the rate. The Department of Finance, if we're dealing with borrowing, has borrowed in Switzerland and we just heard the Minister of Finance the other day — (Interjection)— no.

MR. CHAIRMAN: One member at a time. The Honourable Minister.

MR. BANMAN: Mr. Chairman, the money has been borrowed, so it doesn't matter if we would provide a total guarantee for the total 10 million to the Bank of Montreal or through MDC. That interest cost has to be borne by the company because I don't want the impression left that MDC is making money because they are loaning McKenzie Seeds some of these funds because the people of Manitoba have borrowed that money to give to MDC.

MR. EVANS: Mr. Chairman, is the Minister of MDC telling us that the MDC pays more for the capital that they're lending out than the rate that they are receiving from any borrower? Is the MDC paying and is charged by the Crown a higher rate of interest than they charge to their customers for lending money? That sounds awfully ridiculous to me.

MR. BANMAN: Right now that is the case. We have some mortgages which are 7 or 9 percent. MDC now, I haven't checked what the last rate was with regard to the Department of Finance but it is substantially higher because I think the borrowing is now, what, about 13-1/2 percent? So there is a differential in rates that fluctuates every quarter which the Department of Finance puts out. All I am saying is that, and we can get the exact figures of what the borrowings were in '74 versus now, but all I'm saying is that the governments have . . .

MR. EVANS: Surely, the MDC is not borrowing at 18 or 19 percent and then giving it to McKenzie's at 16-3/4. Surely you're not saying that. That cannot be and I think it's on the record that the McKenzie Seed Comapny over the years, has made a substantial contribution to the revenues of the Manitoba Development Corporation. I'd like to ask the Minister, can he tell me, just what was the write-off of CFI? Was it 30 million or 25 million? I've forgotten the number, but it was a very big write-off and he wasn't here when I made this statement. He wasn't here when I made the statement that if we were as kind to McKenzie's, only even a fraction of that kindness shown to McKenzie's by governments collectively, and he wasn't here to hear my statement, that this company would be in a lot better shape in terms of finances.

But in terms of the actual operation, in the reality, in the real world, in the economy of Brandon, in the economy of Manitoba, that company is what the employees make it; it's what the people on the plant floor make it; it's the people in the office make it; it's what the salesmen make it; it's what the president makes it; it's what the chairman of the board makes it; it's what those people do, and the revenues that they can obtain and try to maintain or contain costs. These are the people that are making it a going concern and it is a going concern. I really think it's unfortunate that the members of the government can sit here and almost belittle the company. I recognize its got problems. I know if it went out of business today there would be a large debt that couldn't be paid. I know that, I mean that's obvious, but it is a going concern. If you don't call the loan, it will continue to operate as a going concern and we all hope it will be but I really reject and resent the implications, or inferences that, well, we've got something bad here, we should put it down. There's always the sort of a put down of this company. How about building it up for a change? How about being a supporter of McKenzie Seed? How about the Minister of Economic Development doing a little bit for McKenzie Seed, just a fraction of what he's prepared to do for some of the private companies?

MR. CHAIRMAN: Mr. Johnston, Minister of Economic Development.

MR. JOHNSTON: Mr. Chairman, I've never heard any such blitheracy in my life to suggest that this government is putting down McKenzie Seed when we have said all along McKenzie Seed will be there. The member puts it down by not facing the facts that there was 1,300,000 lost last year. We faced the facts and put it on the table. The member talks about interest being paid. Even if it was even, even if they pay back the exact amount cost to the government for interest, we break even. The money doesn't come from growing on trees.

MR. EVANS: They pay more than the government borrows at.

MR. JOHNSTON: They pay very little more. They are in the same position as the Crown corporations generally, Mr. Chairman, and the honourable member should know how that works. I tell you very sincerely that the government has said that McKenzie Seed is a viable operation but it has a debt and it has a job to do to get out of it and this government has never pulled it down. This government has said the company can be better and we have to face the facts on how to get it that way. And again, I'm very very pleased that the member agrees with loans, with interest-free loans to companies. I'm glad he agrees that we just put out money to keep people working because, quite frankly, in the markets we have in the competition today, we have to look at those things in Manitoba.

MR. CHAIRMAN: The Member for River Heights.

MR. FILMON: Mr. Chairman, I think we're all interested in having the company strengthened and become viable in the marketplace, and the only way it's going to become so is by recognizing the exact position it's in and not try to hide things and say that if only you didn't have the interest it would be viable; if only you didn't have to write off the seeds that are returned and are of no value; if only the accounting factors were changed.

MR. EVANS: Nonsense, nonsense.

MR. FILMON: Those are the things that are hurting the company. The only thing that will help the company is to recognize that it can be viable in the marketplace by following good business principles, by improving its marketing, and showing fairly what it does in competition with other people, and not by trying to prop it up by artificial means.

MR. EVANS: Mr. Chairman, I have to forgive the new member because he's been around for a very short time and he doesn't know much about the history of this company.

Mr. Chairman, we were not around this table until, I think it was, Mr. McGill will know, 1972 or 1973 or 1971, whatever it was. The years prior to the NDP becoming government, there was no public information on McKenzie's whatsoever. Nobody knew what McKenzie's was doing. The first I had ever heard of McKenzie's, even after being a Minister for six months, is when a member of the board of McKenzie's in Brandon phoned me up to say something's wrong, there's a Mr. Swanson here that wants to sell it to Ferry Morse. What are you going to do to save it for the city of Brandon? There was never any information on it made public. There was no public document, so don't talk about hiding anything. The previous government and I'm glad that this government has continued the practice of having the chairman of the board, the president come here, and lay an annual report before the people of Manitoba, because when that annual report is laid before you, Mr. Filmon, it's laid before the people of Manitoba and nobody is hiding anything.

MR. FILMON: Then don't tell us the report is wrong.

MR. EVANS: I'm not saying the report is wrong. What I am objecting to, Mr. Chairman, is this continual litany of put down, that's what I am objecting to; that's what I'm objecting to. Mr. Chairman, if the Minister of Economic Development, who is so good at handouts to private enterprise — and incidentally, I'm not against helping private enterprise. The Minister seems to think otherwise because I say we need jobs in this province and I'm prepared to help private enterprise. All I'm saying, Mr. Chairman, how about a little bit of that charity for McKenzie Seed that he's ready to dole out to the private sector, that's all we want.

MR. JOHNSTON: Does the member not think that what we are doing, I don't call it charity, I call it assistance and we're doing it at the present time.

MR. CHAIRMAN: The Member for Brandon East. I wish he would signal. He looks at me and I'm not sure if he's wanting to kill me or recognize the Chair.

MR. EVANS: Mr. Chairman, I'm glad you're the Chairman because I'm sure if the Chairman were not the Chairman, the Member for Virden, he would have lots to say this morning too, but we've effectively cut him off. I don't want to prolong this because some of this debate is old hat. I just want to go on record again as saying that we've got to take a realistic approach to the company. I make no apologies for the government having to have to sustain the company over the past if that's what was needed by way of MDC of whatever. I make no apology, being the Minister supporting this company and I just don't want to see this Minister having to apologize to support this company in whatever way, shape or form.

Thank you.

MR. BANMAN: Mr. Chairman, I would just like to take the opportunity of thanking the Chairman and the President of the company for being here this morning. As I have mentioned before, I wish them well in their deliberations and some of the tough decisions that I know they're going to have to make over the next little while and hopefully next year we can come back here with a black figure instead of a red one.

MR. CHAIRMAN: Is it then the will of the committee to adopt this report? It is near closing. (Agreed)

MR. BANMAN: Before we rise, I wonder if I could inform the honourable members that on Tuesday morning at 10:00 o'clock we will deal with MDC and we will also have ManFor here and then I believe that leaves one committee left and if we finish MDC and ManFor on Tuesday, we go into Manitoba Minerals on Thursday, and I think that's the last company that we deal with regard to Economic Development.

MR. CHAIRMAN: Committee rise.